

Outside In

Self-directed customers are notoriously independent, but term life writers can convert them into repeat buyers.

by Ron Panko

Self-directed buyers of life insurance already have tested the immutable rule that the product is sold rather than bought. But now some in the industry are challenging the corollary that insurers cannot develop long-term relationships with these buyers.

Bernard Tubiana, a principal with Deloitte Consulting LLP in New York, says insurers that don't establish such relationships miss out on repeat sales, and cultivating bonds with buyers ought to be part of any good sales strategy.

Self-directed buyers are those who realize, without being pushed by agents, that they need life insurance. They are aware of what life insurance can do for them, and often research their options. They seek out term insurance primarily because it is a simple and relatively inexpensive product, Tubiana said. After educating themselves, they are predisposed to buy.

But from an insurer's perspective, they are not loyal.

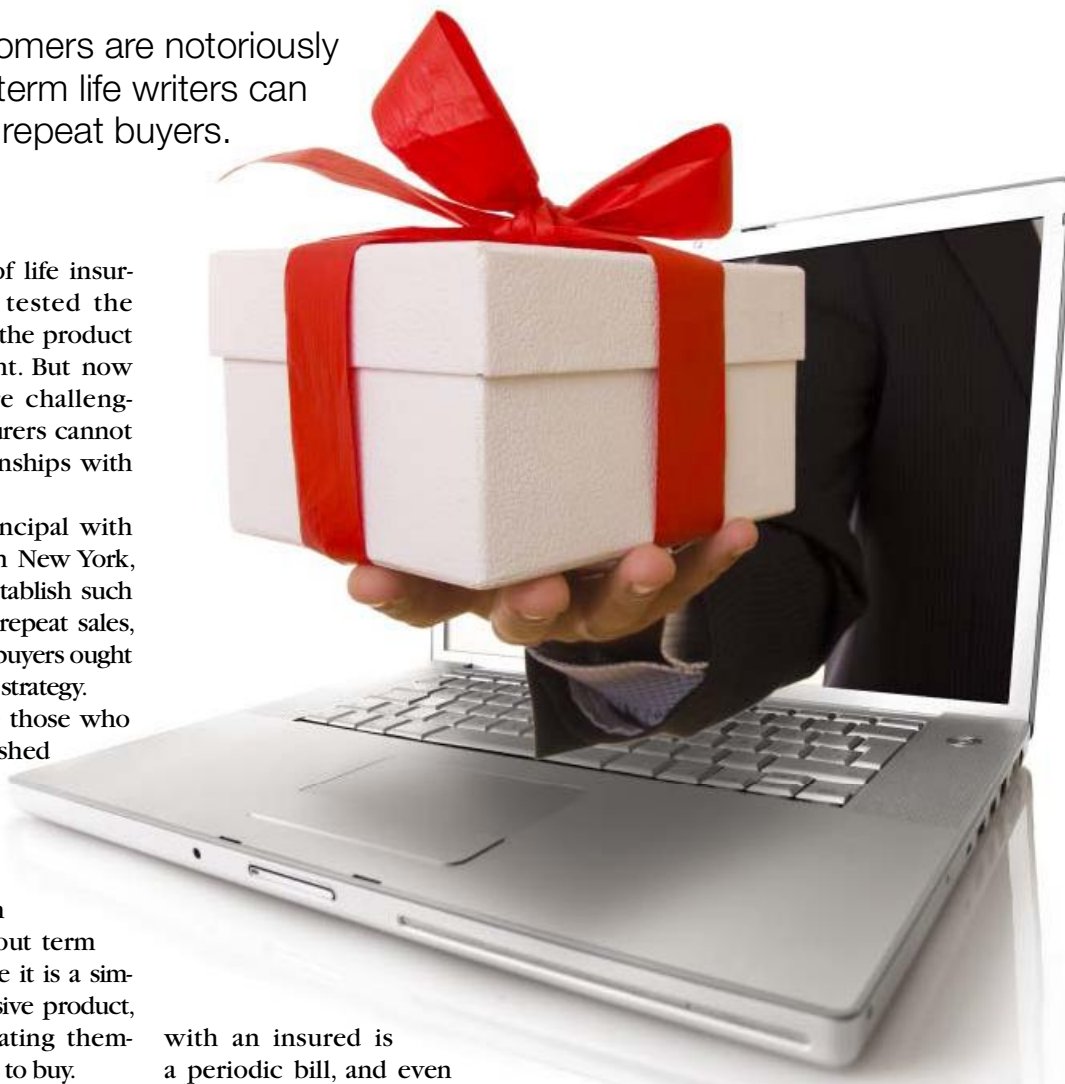
"We recognize the fact that term buyers understand the product, understand the process and are repeat buyers," said Tubiana. "The interesting thing is that they are not necessarily buyers from the same carrier." And it is this characteristic, Tubiana believes, that insurers can work to change.

The product they buy—term life—lends itself to this play-the-field trait, so it may not be surprising if these purchasers are like one-night stands. As Tubiana points out, once the policy is in place, about the only contact an insurer has

with an insured is a periodic bill, and even that often takes place on autopilot. "Every once in a while, an insured might change a beneficiary or an address, but roughly, that's it," Tubiana said.

Then there is the matter of the intermediary. Even when self-directed purchasers initiate the buying process at an Internet site, they become the clients of the online aggregator. Insurers fear that trying to make new sales to these buyers can destroy their business-partner relationships with the intermediaries.

So what is an insurer to do? The key is to provide a positive experience during the buying and underwriting process and whenever there is subsequent



The Idea: Contrary to common wisdom, self-directed term-life buyers may consider loyalty when buying again.

➤ **Behind the Idea:** Insurers can build loyalty by making sales and service easy, even if distributors "own" the customer.

➤ **The Payoff:** Such efforts can lead to more word-of-mouth advocacy, a powerful force in marketing.

contact. "The fact is that they value a positive experience," said Tubiana. "So if I'm self-directed, and I had a positive experience, I'm going to self-direct myself right back to the same carrier."

That is often not how things go. A

visit to an aggregator's Web site lets a shopper consider two things: company rating and price. The shopping experience starts from scratch in what Tubiana calls a "fairly commoditized product world." So if a buyer sees a need for another policy, the search is likely to again be determined by rating and price—unless the shopper has a reason to go back to the initial carrier, he said.

The Intermediary Dilemma

ING USA Life Group and Prudential of America Group, the top two term life insurance sellers in 2007 based on percentage of sales gains, have different views on how to convert self-directed buyers into repeat customers.

ING USA Life, with by far the fastest rate of growth at 201.6%, does not market to its in-force policyholders. "Philosophically, that would be contrary to our sales approach," said spokesman Phil Margolis. "Because we sell through independent producers, we've left the marketing to these clients to them."

Butch Britton, president of ING's retail life group, said about 40% of its term life application count is from self-directed buyers. Not all sales are Internet-based; some come from television or print-media advertisements, he said.

"Most of the time, the customer forms the initial relationship with the intermediary who is the seller," Britton said. "We don't go around that distribution relationship. They came to that site because they wanted to shop around and buy, and so we let them buy, and we provide service when they call us."

Prudential of America, ranked sec-



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ond in sales by premium and second in sales growth at 45.5%, has three main sales channels: independent (third-party), proprietary agency and financial institution. It maintains repeat-sale information in each channel and makes some effort to develop lasting relationships with self-directeds, according to Mark Hug, chief marketing officer for individual life insurance.

Hug estimated that about 10% of term life written by Prudential's career agents is self-directed. The company uses its Web site to generate leads for its agents. These leads have increased substantially over time, Hug said. Agents also prospect for business and write insurance as a result of their needs-based analyses.

For the institutional channel, Prudential debuted its MyTerm online system in December 2007 to help the underserved and underinsured middle market buy term life policies. Almost 100% of MyTerm business is self-directed, Hug said. Self-directeds can get quotes and bind coverage in minutes, either on their own or with the help of employees of the institution, usually a bank.

Self-directed buyers in the independent channel are harder to measure. "We don't actually ask whether pros-

pects were self-directed when they came in," Hug said. The independent channel includes online aggregators, which make up about 15% of independent channel business in term life. Prudential considers 100% of that business as coming from self-directed shoppers.

Hug said developing policyholder loyalty is much tougher in the independent channel. "While we like to think we have strong loyalties from a broker, they do business with many companies, and they try to get a good price for their clients," he said. "At the end of the day, relatively few term buyers are repeat buyers, maybe 10% to 15% on the third-party side."

Quality Experiences

Buying life insurance is often a long and invasive process, so it is difficult for an applicant to have the kind of positive buying experience Tubiana recommends.

To obtain a good price, an applicant must submit to a visit by a stranger who takes blood and other fluids. The process may include a telephone interview by an insurance underwriter about one's health history. In some cases, it can involve taking treadmill electrocardiograms or visiting a doctor chosen by the insurer.

Fortunately for insurers, applicants are disinclined to abandon the process, even

Life Sales Bring Mixed Results in Third Quarter

New annualized premium for individual life insurance dropped 11% in the third quarter of 2008, according to a sales survey report issued last month by LIMRA International Inc.

Variable life and variable universal life products saw the steepest declines, plunging 33% for the quarter, said Ashley Durham, LIMRA analyst for product research.

"Given the current equity market environment, it's not surprising that variable products took the biggest hit," she said. "Not only are individual VUL sales suffering, but a number of companies have noted that corporate-owned and private-placement sales are much lower than they were at this time last year [2007]."

After seven consecutive years of growth, universal life premium experienced a significant decline in 2008. Third-quarter premium dropped 12% over the same period in 2007 and was down 2% year-to-date, LIMRA reported.

However, term sales remained steady, with new premiums flat for the quarter and down 1% YTD. About 45% of the participating term writers increased their sales over the first nine months of 2007, according to the report.

Sales in whole life products jumped 7% in the third quarter and 2% YTD, mostly from traditionally top sellers who worked to renew interest in their whole life products in 2008. These producers attributed the increases to factors such as product introductions and fire sales.



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when they are not having a good experience, because they have no expectation that starting the process anew with a different carrier would be any better, said Tubiana. Rather, such switching would extend the overall process.

But Tubiana says a positive buying experience can be a differentiator for a company. Having missed the opportunity to build a relationship during the sales process, insurers miss out on repeat purchases and new purchases through word-of-mouth advocacy.

“Buyers use friends and family to educate themselves and validate their decisions,” said Tubiana. “This is one of the most cost-effective ways of building brand and generating leads.”

Hug said Prudential tries to limit the unpleasant and intrusive parts of the application process for fully underwritten customers.

“We don’t make people do treadmill EKGs,” he said. “We don’t believe they add a lot of value. And we don’t require them to see a doctor of our choosing. People are pleasantly surprised when they find out they don’t have to do that.”

Prudential’s MyTerm product is designed to make the buying experience easy. From their banks’ Web sites, prospects can link to Prudential’s site,

where they can obtain a quote and bind a policy in about 10 minutes. Alternatively, they can go to their local branch and have a platform representative go online for them.

Despite the immediate underwriting, MyTerm’s rates are only about 20% more than a fully underwritten product. The company limits its underwriting risk by setting the maximum face amount at \$250,000. Joan Cleveland, a senior vice president in the individual life business, characterized MyTerm as a “budget-based sale,” like paying for cable television.

Two other top-five sellers of term life insurance in 2007, Northwestern Mutual Group and Primerica Group, said they don’t have self-directed buyers. “We don’t sell via an 800 number or the Internet,” said Northwestern spokesman Jean Towell. “We don’t broker our business, either. We’re all about referrals and relationship-based sales through our financial representatives. In part, that’s why we’re so successful.”

Primerica, too, uses a proprietary network of financial representatives and specializes in term life products. Spokesman Mark Supic said company agents develop relationships.

Of course, a positive customer experience must extend beyond the pur-

chase itself. Tubiana said the experience must be consistent, and consistency doesn’t happen by accident. “Starbucks spends a lot of effort making stores look the same,” he said. “That is not just happenstance.” And while Starbucks sells through stores, financial services companies use contact centers.

“The Web is taking over a lot of that functionality, and it turns out that interactive voice recognition is not a preferred method,” he said. “If you know who is calling you, based on phone numbers and data, based on prior demographics and psychographics, you’re able to have a much richer conversation, which will create a much stronger relationship than if you don’t.”

What insurers don’t want is a difficult-to-navigate Web site when consumers of all kinds are used to one toll-free phone number providing access to everything. While carriers benchmark themselves against their peers, their policyholders and purchasers judge them by their interactions with other kinds of companies, Tubiana said. **BR**

Learn More

Prudential Financial
A.M. Best Company # 06974
Distribution: Career agents, independent agents and brokers, direct

ING USA Life Group
A.M. Best Company # 06895
Distribution: Independent marketing organizations and general agents, career agents, wholesalers

Northwestern Mutual Group
A.M. Best Company # 06845
Distribution: Exclusive sales force

For ratings and other financial strength information visit www.ambest.com.

Term Life Top U.S. Writers

ING USA Life Group had the largest percentage gain in sales among the top 10 U.S. term writers. (Face Amount Issued 2007)

Company	Percentage Change	Amount Issued (Billions)
AIG Life Group	-9.8%	\$120.7
Prudential of America Group	45.5%	\$88.5
Northwestern Mutual Group	6.1%	\$78.2
Primerica Group	2.7%	\$77.7
State Farm Life Group	-9.1%	\$72.1
Protective Life Corp.	-2.2%	\$64.1
Metropolitan Life & Affiliated Cos.	15.9%	\$59.3
Genworth Financial Group	-34.5%	\$53.7
ING USA Life Group	201.6%	\$53.6
Legal & General America Group	19.5%	\$52.5

Source: A.M. Best

At the Market: U.S. Life

Stock performance: From Nov. 6 to Dec. 4, 2008
Dec. 31, 2004 = 1,000
A.M. Best’s U.S. Life Index (AMBUL)

